

Message Text

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ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 AGR-20 CEA-02 CIAE-00 COME-00

DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 SAM-01 DRC-01 /196 W
----- 092746

R 071510Z FEB 74

FM AMEMBASSY BUCHAREST

TO SECSTATE WASHDC 7657

INFO USMISSION GENEVA

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GENEVA FOR GATT

E.O. 11652: N/A

TAGS: ETRD, RO

SUBJ: ROMANIAN CUSTOMS TARIFF SYSTEM

REFS: A) BUCHAREST 4648, DECEMBER 20, 1973; B) STATE 25226

1. SUMMARY. IN MOST RECENT DEVELOPMENT AFFECTING ROMANIAN CUSTOMS TARIFF SYSTEM, ROMANIAN MINISTRIES OF FOREIGN TRADE AND FINANCE ISSUED INSTRUCTIONS PLACING CUSTOMS VALUATION RATE AT 20 LEI EQUALS ONE US DOLLAR. EFFECT IS TO TIE RATE AT WHISKY IMPORT CUSTOMS TARIFFS WILL BE DETERMINED TO A SIMILAR RATE AT WHICH ROMANIAN EXPORTS TO HARD CURRENCY COUNTRIES ARE VALUED. OUR INITIAL EXAMINATION OF TARIFF SYSTEM AS A WHOLE SHOWS THAT THERE IS POSSIBILITY OF EXTERNAL TRADE EFFECTS AS RESULT OF THIS HIGH VALUATION RATE AND ITS NON-APPLICABILITY TO EE COUNTRIES. TARIFF COULD ALSO DAMPEN INTERNAL INCENTIVES GIVEN TO INDUSTRIAL CENTRALS AND ENTERPRISES TO INCREASE THEIR TRADE WITH HARD CURRENCY AREAS; THIS INTERNAL EFFECT COULD POSSIBLY HAVE

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REPERCUSSIONS ON ROMANIAN TRADE AND INDUSTRIAL GROWTH GOALS.

THERE IS ALSO POSSIBILITY THAT REDUCTION OF IMPORTS ON CERTAIN LOW PRIORITY ITEMS WOULD BE COMPENSATED BY INCREASED IMPORTS OF EQUIPMENT AND TECHNOLOGY CONSIDERED MOST IMPORTANT TO ROMANIA'S HIGH INDUSTRIAL GROWTH GOALS. END SUMMARY.

2. SINCE LAST DOLLAR DEVALUATION ROMANIAN FOREIGN TRADE ORGANIZATIONS EXCHANGE DOLLARS EARNED FROM EXPORT SALES AT AN EFFECTIVE RATE OF 20 LEI EQUALS ONE US DOLLAR FOR DEPOSIT IN ROMANIAN EXPORTING ORGANIZATIONS' ACCOUNTS AT THE FOREIGN TRADE BANK. THIS EXCHANGE RATE IS ARRIVED AT THROUGH OPERATION OF FOREIGN TRADE INTERNAL DISCOUNT COEFFICIENT (CID) WHICH IS PRESENTLY FIXED AT 4.025. (AMOUNT IN LEI DEPOSITED IN ROMANIAN ORGANIZATION'S ACCOUNT (A1) IS DETERMINED BY THE PRODUCT OF THE DOLLAR VALUE OF SALE AND OFFICIAL LEI/DOLLAR EXCHANGE RATE, MULTIPLIED BY THE CID. THUS (DOLLARS TIMES 4.97) TIMES 4.025 EQUALS A1. RESULTANT EFFECTIVE RATE IS 20 LEI EQUALS ONE US DOLLAR.) THUS, BY ESTABLISHING CUSTOMS VALUATION RATE AT 20 LEI EQUALS ONE US DOLLAR ROMANIAN AUTHORITIES TIE TARIFF PAYMENTS TO SAME EXCHANGE RATE AT WHICH ROMANIAN EXPORTERS EARN LEI FROM HARD CURRENCY SALES. SETTling ON THIS RATE RATHER THAN LOWER OFFICIAL RATE (4.97 LEI EQUALS ONE US DOLLAR), FOR EXAMPLE, CREATES FOR THE ROMANIAN IMPORTER A SIGNIFICANT COST DIFFERENTIAL BETWEEN MANUFACTURED GOODS FROM COUNTRIES INCLUDED IN TARIFF SYSTEM (PRIMARILY WESTERN COUNTRIES) AND GOODS FROM EXCLUDED COUNTRIES (PRIMARILY THE SOCIALIST NATIONS), THUS AMPLIFYING THE APPARENT DISCRIMINATORY EFFECT RESULTING FROM NON-APPLICABILITY OF ROMANIAN TARIFF TO EE COUNTRIES' IMPORTS.

3. ROMANIAN MFT AND MFA OFFICIALS, HOWEVER, HAVE ASSURED US THAT IMPORTS FROM THE U.S. WILL NOT BE AFFECTED ADVERSELY BY OPERATION OF TARIFF SYSTEM. REASONING BEHIND THIS CONCLUSION, ACCORDING TO MFT OFFICIALS, IS BASED PRIMARILY ON FACT THAT FOREIGN TRADE SECTOR, AS OTHER ELEMENTS OF ECONOMY, IS CONTROLLED BY NATIONAL ECONOMIC PLAN WHICH PROJECTS OVERALL PERCENTAGE OF TOTAL ROMANIAN TRADE WHICH WILL BE CARRIED ON WITH WESTERN COUNTRIES; ACCOMPANYING SUBPLANS CONTROL SPECIFIC PURCHASING AND SALES TRANSACTIONS AND PROJECTS. THESE PLANS, ACCORDING TO GOR OFFICIALS, TAKE INTO CONSIDERATION ROMANIA'S COMMITMENTS UNDER GATT RULES CONCERNING MAINTENANCE OF A CERTAIN RATE OF TRADE EXPANSION WITH GATT CONTRACTING PARTIES.

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4. ONE MAJOR UNKNOWN FACTOR, HOWEVER, IS REACTION OF NON-CENTRALIZED IMPORTS TO A TARIFF SYSTEM WHICH INCREASES THE COST FOR ROMANIAN IMPORTERS OF CERTAIN PRODUCTS. WHILE FOREIGN TRADE OF IMPORTED PRODUCTS CONSIDERED MOST IMPORTANT BY ROMANIAN GOVERNMENT IS COVERED IN DETAIL BY OVERALL ECONOMIC PLAN AND SUBPLANS, TRADE OF MAY ITEMS IS LESS RIGIDLY CONTROLLED; THIS WOULD INCLUDE SUCH PRODUCTS AS SOME LIGHT INDUSTRY AND CONSUMER INDUSTRY

GOODS AND EQUIPMENT, WHICH ARE GIVEN LESS IMPORTANCE IN THE PLAN, BUT WHICH NEVERTHELESS CAN AMOUNT TO A CONSIDERABLE RELATIVE VOLUME OF TRADE. IT IS IN TRADE OF THESE PRODUCTS WHERE WE WOULD EXPECT DECISIONS AT INDUSTRIAL CENTRAL AND FTO LEVEL TO EXERT GREATEST INFLUENCE, POSSIBLY RESULTING IN AN EVENTUAL OVER-ALL REDUCTION OF IMPORTS SUDDENLY MADE MORE EXPENSIVE BY APPLPNATION OF THE TARIFF SYSTEM, COMPARED TO LEVEL WHICH MAY BE REACHED IF THERE WERE NO TARIFF. (A SIGNIFICANT PORTION OF GOODS WHICH WILL BE IMPORTED INTO ROMANIA DURING THE FIRST HALF OF CY 1974 WILL PROBABLY RE RESULT OF CONTRACTS ALREADY SIGNED. THUS, IF THERE IS TO BE AN ADVERSE IMPACT ON IMPORTS FROM THE WEST IT WILL BE LAG EFFECT BASED ON FUTURE DELIVERIES UNDER CONTRACTS BEING SIGNED NOW; EFFECT MAY ALSO BE AMPLIFIED FOR THOSE COUNTRIES EXPORTING MANUFACTURED PRODUCTS TO ROMANIA SINCE NEW CUSTOMS TARIFF TAXES PRIMARILY MANUFACTURED GOODS IMPORTS.) GIVEN THE CENTRALIZED NATURE OF ROMANIAN ECONOMY, HOWEVER, IT IS CONCEIVABLE THAT REDUCTION OF NON-CENTRALIZED IMPORTS COULD BE DELIBERATE MOVE BY GOR TO CONSERVE HARD CURRENCY FOR HIGH TECHNOLOGY IMPORTS FROM THE WEST, AND PRACTICAL RESULT COULD VERY WELL BE A REDUCTION IN IMPORTS FROM US OF ITEMS LESS ESSENTIAL TO ROMANIAN ECONOMY, WITH A COMPENSATING INCREASE IN TRADE IN OTHER AREAS.

5. INTERNALLY, WE WOULD EXPECT TARIFF TO DRAIN OFF MORE OF EARNINGS ACCUMULATED BY INDUSTRIAL CENTRALS AND ENTERPRISES WHICH, UNDER RECENTIVE PLANS, HAVE BEEN AUTHORIZED TO RETAIN LARGER SHARE OF THEIR INCOME DERIVED FROM SALES TO HARD CURRENCY AREAS. IN SOME INSTANCES RESULT MIGHT BE TO ENCOURAGE IMPORT SUBSTITUTION FROM DOMESTIC SOURCES, AND DAMPEN THE INCENTIVE EFFECT FOR INCREAS-ING TRADE WITH HARD CURRENCY AREAS, DEPENDING ON ROMANIAN COMPANY'S BREADOWN BETWEEN EXPORTS AND IMPORT NEEDS. DEPENDING ON OPERATION OF SYSTEM, THEN, ONE INTERNAL EFFECT COULD BE TO

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DODE-00 EB-11 FRB-02 H-03 INR-10 INT-08 L-03 LAB-06

NSAE-00 NSC-10 PA-04 RSC-01 AID-20 CIEP-02 SS-20

STR-08 TAR-02 TRSE-00 USIA-15 PRS-01 SPC-03 FEA-02

OMB-01 SAM-01 DRC-01 /196 W

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TO TRADE WITH HARD CURRENCY COUNTRIES, AND THUS THROW YET ONE MORE UNPREDICTABLE FACTOR INTO THE GOVERNMENT'S EFFORTS TO MEET EXCEEDINGLY HIGH OVERALL FOREIGN TRADE AND INDUSTRIAL EXPANSION GOALS.

6. ROMANIAN OFFICIALS HOPE THAT INCREASED COSTS FOR IMPORTED GOODS WILL ENCOURAGE MORE EFFICIENT AND PRODUCTIVE USE OF THESE IMPORTS BY PRODUCING ENTERPRISES, BUT SOME EXPRESSED CONCERN THAT INCREASED COSTS WOULD LEAD TO PRESSURES TOWARD HIGHER PRICES FOR THE INDUSTRIAL CENTRALS' FINISHED PRODUCTS. SOME ROMANIAN OFFICIALS ALSO SHOWED UNCERTAINTY OVER RESPONSE OF NON-CENTRALIZED IMPORTS, AS DESCRIBED ABOVE, AND ITS POSSIBLE IMPACT ON OVERALL TRADE PATTERN.

7 WE HAVE HAD NO INDICATION FROM US BUSINESSMEN THAT US EXPORT TRADE IS BEING AFFECTED BY OPERATION OF SYSTEM, ALTHOUGH, AS NOTED ABOVE, CUSTOMS TARIFF HAS BEEN IN OPERATION ONLY ABOUT ONE MONTH AND IMPACT MAY NOT TAKE PRACTICAL EFFECT IMMEDIATELY.

8. ALTHOUGH TARIFF SCHEDULE REGULATIONS CONTAIN PROVISION FOR LIMITED OFFICIAL USE

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INCREASING TARIFFS FOR COUNTRIES WHICH DO NOT NOW EXTEND MFN TREATMENT TO ROMANIA, MFT OFFICIALS SAID THAT PROVISION HAS NOT BEEN PUT INTO EFFECT, AND THAT THERE HAS BEEN NO DECISION ON ITS USE PENDING AN EVALUATION OF TARIFF SYSTEM'S OPERATION AFTER MORE EXPERIENCE HAS BEEN GAINED.

8. ABOVE COMMENTS ON OPERATION AND EFFECT OF NEW ROMANIAN TARIFF SCHEDULE BASED ON OUR PRELIMINARY ANALYSIS AND ON DISCUSSIONS WITH VARIOUS ROMANIAN OFFICIALS. AS THE APPLICATION OF THE TARIFF GETS UNDERWAY, WE WILL CONTINUE TO EXPLORE OPERATION OF NEW SYSTEM, AS IT AFFECTS U.S. INTERESTS, WITH INDUSTRIAL CENTRALS, FOREIGN TRADE ORGANIZATIONS AND ECONOMIC MINISTRIES. MFA OFFICIALS DUMITRU MIHAIL AND MARIN ILIESCU HAVE ALSO VOLUNTEERED TO CHARGE ON SEVERAL OCCASIONS DURING PAST MONTH THAT THEY INTENDED TO CALL HIM IN SOON TO EXPLAIN NEW TARIFF LAW BUT WERE WAITING FOR FURTHER INSTRUCTIONS BEFORE DOING SO. ILIESCU STATED ON ONE OCCASION THAT HE DID NOT EXPECT LAW TO HAVE ANY

EFFECT ON US-ROMANIAN TRADE BUT WOULD GO NO FURTHER.
MARTENS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CUSTOMS DUTIES, IMPORTS, EXPORTS, CUSTOMS ADMINISTRATION, TARIFF NEGOTIATIONS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 07 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974BUCHAR00500
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: BUCHAREST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740250/aaaabuog.tel
Line Count: 225
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: A) BUCHAREST 4648, DECEMBER 20, 1973, ; B) STATE 25226
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 30 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <30 MAY 2002 by elyme>; APPROVED <03 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ROMANIAN CUSTOMS TARIFF SYSTEM
TAGS: ETRD, RO, US
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005